

Summary Plan Description

Savings and Investment Plan

Effective October 18, 2002



Savings and Investment Plan

SOLUTIA INC.

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The information in this booklet is provided to Solutia employees and other inactive participants who are eligible for this plan and is your Summary Plan Description. This document constitutes part of a prospectus covering securities that have been registered under the Securities Act of 1933. It covers Solutia Inc. common stock and related Preferred Share Purchase Rights offered through the Solutia Savings and Investment Plan. Additionally, certain sections of this document (pp. 10-18) constitute part of a prospectus covering securities offered through the SIP Parity Plan.

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Overview

Your Savings and Investment Plan (SIP) is an opportunity to save. Whatever your savings goal, saving now is important because the more time you let your money work for you, the better. Better yet, when you save through SIP, Solutia adds to your savings with matching contributions.

You decide how much you want to save each pay period—from 1% to 16% of your eligible pay (in whole percentages). You decide if you want to save before-tax dollars or after-tax dollars or a combination of both.

Whether you save with before-tax or after-tax dollars, Solutia adds to your account. For each dollar you save—up to 8% of your eligible pay—Solutia adds 60¢ to your account. The Solutia matching contribution is invested in Solutia common stock.

You are always 100% vested in (or fully own) the money you contribute to SIP and the earnings on those contributions. You become fully vested in the Solutia matching contributions after three years of service.

You have 14 investment choices. You can elect one of SIP's four pre-mixed diversified portfolios designed to reflect the level of risk at which you are comfortable. Or you can create your own portfolio from the 10 investment funds offered.

You can get your money out of SIP by taking a loan, making a withdrawal, or taking a distribution (either as a lump-sum or in installment payments) after you retire or terminate. If you saved with before-tax dollars, you can get a withdrawal or a distribution only after you terminate employment, become disabled and are unable to perform any reasonable occupation, die, or reach age 59½. If you have saved with after-tax contributions, you can withdraw those contributions at any time.

INFORMATION AT YOUR FINGERTIPS

*If you'd like more information, visit the **Your Benefits Resources™** Web site.*

*To reach the site from work, go to **soi/hr**—the Human Resources page of Solutia's Intranet—and choose **Your Benefits Resources**. If you prefer, you also may access the site at <http://resources.hewitt.com/solutiabenefits> 24 hours a day, seven days a week, from any computer with Internet access.*

*Whenever you need information or want to make changes to any of your Solutia benefits, turn to **Your Benefits Resources**. The site is your best source for personalized information and the best way to make changes to your benefits.*

Event	What to Do/When the Change Will Be Effective
Enroll in SIP or change the percentage of eligible pay you are contributing either before-tax, after-tax, or both:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective approximately two pay periods after your election.
Change how future contributions are invested among the investment funds and/or pre-mixed portfolios:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective the next business day.
Transfer existing balances among investment funds:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective the same day provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day.
Make an in-service or age 59½ withdrawal:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective the same day provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day.
Request a new loan:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective the same day provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day.
Request a final or partial distribution:	Visit <i>Your Benefits Resources</i> * or call the Benefits Center at 1-888-726-8616.** The change will be effective the same day provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day.
Request installment payments or change installment payment period or frequency:	Call the Benefits Center at 1-888-726-8616.** The change will be effective the same day provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day.

*The *Your Benefits Resources* Web site is available 24 hours a day, seven days a week.

**The Solutia Benefits Center (the automated telephone system) is available 24 hours a day Monday-Saturday, and after 12:00 noon Central time on Sunday. Benefits Center representatives are available Monday-Friday, 8:00 a.m.-4:00 p.m. Central time.

Savings and Investment Plan

Who's Eligible

You are eligible to join SIP if you are an employee of Solutia or any participating subsidiary. (See page 42 for the exception that applies to temporaries, per diems, co-ops, summer students, seasonal employees, and other "non-regular" employees.)

How to Enroll

To join SIP, decide how much you want to save and how you want to invest your account. Then, log on to *Your Benefits Resources* or call the Benefits Center automated telephone system at **1-888-726-8616**.

Enrolling through *Your Benefits Resources* or the Benefits Center authorizes Solutia to deduct your contributions from your pay. The amount you elect to save is automatically taken from your paycheck beginning as soon as administratively possible—approximately two pay periods after you enroll.

When you enroll in SIP, you also need to designate a beneficiary. Complete the Beneficiary Designation Form—which you can find on the Solutia Intranet site at **soi/hr**, at your local forms station, or by calling the Benefits Center—and return it to the Benefits Center. If you are married, you must designate your spouse as your beneficiary unless he or she agrees in writing to your designation of someone else and that written consent is witnessed by a Notary Public. (You can change your beneficiary with your spouse's written consent, but it is important for you to realize that, in order to be effective, the form indicating the latest beneficiary must be filed with the Benefits Center—not kept in a drawer at home.)

How the Plan Works

Section I: Putting Money Into SIP

Generally, there are three questions you will have to answer as you put money into SIP:

1. How much do you want to save?
2. Do you want to save before-tax dollars, after-tax dollars, or both?
3. How do you want to invest the funds in your account?

1. HOW MUCH DO YOU WANT TO SAVE?

You can decide to save from 1% to 16% of your eligible pay in whole percentages. (Due to IRS restrictions, your allowable maximum SIP contribution may be less than 16% of your eligible pay. See below.)

Eligible pay includes items actually paid, such as base pay, overtime pay, shift differential, achievement awards, and annual cash incentive or gainsharing pay. Eligible pay does not include items such as tool allowance, pay in lieu of vacations, separation pay, or employer benefits contributions. Also, by IRS rules, eligible pay for purposes of SIP contributions is limited to \$200,000 in 2002 (see below). Currently, this dollar limit is indexed and may increase in the future to reflect increases in the Consumer Price Index.

Your savings, up to the first 8% of your eligible pay, are increased by company match contributions from Solutia. For every dollar you save, up to 8% of your eligible pay, Solutia contributes 60¢. This is called the "company match." Savings in excess of 8% of your eligible pay are not matched. (Exceptions to this matching contribution apply to per diems, temporaries, co-ops, summer students, and seasonal employees. See page 42.)

IRS Limits on Your Contributions

Depending on your eligible pay, there may be restrictions on your before-tax contributions, after-tax contributions, or both. **If you reach any of these restrictions, you will be notified of your status and options.** Here are the limits:

- ▶ **Before-tax contribution limit:** Your annual before-tax contributions to SIP (and any other similar plan) are limited to \$11,000 in 2002. This limit may increase in the future to reflect increases in the Consumer Price Index. Contributions in excess of this limit will automatically be converted to after-tax contributions.
- ▶ **HCE limit:** For highly compensated employees (HCEs), contributions may be limited, depending on the average contributions of non-highly compensated employees. In 2002, a "highly compensated employee" is a person who had earnings of more than \$85,000 in 2001. For 2003, a "highly compensated employee" is a person who has earnings of more than \$90,000 in 2002. This earnings amount may be indexed in future years to reflect increases in the Consumer Price Index.

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

- ▶ **Benefit Limit:** Under the Benefit Limit, the most that can be contributed to SIP by you and Solutia is generally the lesser of: (a) \$40,000 for 2002 (indexed, and may change each year) or (b) 100% of your W-2 compensation (limited to \$200,000 in 2002) per calendar year.
- ▶ **Pay Limit:** Eligible pay for purposes of SIP contributions is limited to \$200,000 in 2002. Currently, this dollar limit is indexed and may increase in the future to reflect increases in the Consumer Price Index.

If your contributions to SIP and any related match are limited because of the Benefit Limit or the Pay Limit, you will have the opportunity to participate in a non-qualified plan (the SIP Parity Plan).

During your new-hire orientation, you will receive a Notification of Prior Plan 401(k) Contributions Form. By completing this form and returning it to the Solutia payroll department, you are telling Solutia how much you have contributed—on a before-tax basis—to a previous employer's plan in the same calendar year. Solutia will then monitor how much you can contribute to SIP, without exceeding the annual before-tax contribution limit, for the given year.

To the extent that you contribute more than the before-tax limit (\$11,000 in 2002), you could be responsible for paying an excise tax on those dollars. Please consult your tax advisor to discuss possible penalties.

Catch-Up Contributions

Catch-up contributions are designed to help you boost your retirement savings as you near retirement by allowing you to save above and beyond the normal IRS limits—as well as the limits that SIP rules place on the percentage of pay that you may contribute. You can make catch-up contributions to SIP beginning in the year in which you turn age 50.

In 2002, you can contribute an additional \$1,000. And, the additional contribution amount will increase over the next few years:

Year	Extra Contribution Amount
2003	\$2,000
2004	\$3,000
2005	\$4,000
2006	\$5,000

Section I:
Putting
Money
Into SIP
(cont'd)

How to Enroll

You must enroll to make catch-up contributions. To do so, decide how much extra money you want to contribute each pay period, then log on to *Your Benefits Resources* or call the Benefits Center.

Additional contribution deductions will begin one or two pay periods after you enroll. Your catch-up contributions will continue at the amount you elect until you make a change or reach the maximum amount for the year. If you reach the maximum during the year, your contributions will stop for that year and restart at the same rate the following year, unless you make a change. Remember, the additional amount you can contribute increases in each of the next four years, so you can increase your per-pay-period contribution amount each year too.

Direct Rollovers to SIP

Active participants may elect to roll over eligible taxable lump-sum payouts or partial distributions directly from qualified pension and defined contribution plans from previous employers (other than the company, its subsidiaries, and affiliates) into SIP. In addition, you can roll money into SIP from an IRA you set up to accept a rollover from a previous employer's eligible retirement plan. You must deposit the rollover into SIP within 60 days from the date the money was distributed from your previous employer's plan.

However, personal after-tax contributions made to an IRA and after-tax contributions rolled into an IRA from a previous employer's eligible retirement plan will not be accepted, nor will installment or annuity distributions over a period exceeding the lesser of 10 years or your life expectancy; minimum required distributions at or after age 70½; nontaxable payments; payments made to an alternate payee other than your spouse under a Qualified Domestic Relations Order; payments made after your death to a beneficiary other than your spouse; payments made to correct contributions in excess of SIP's contribution limits; or shares of stock, bonds, other securities, or other non-cash items.

In order to make a direct rollover, request an Application for Direct Rollover Form on *Your Benefits Resources* or by calling the Benefits Center. You will need to make investment choices on the form that apply only to your rollover. After you complete and sign the form, return it to the Benefits Center with:

- ▶ A check issued by the prior plan and made payable to "Solutia Savings and Investment Plan FBO (for the benefit of) (participant's name)";
- ▶ A distribution statement or IRS Form 1099-R from the prior plan itemizing the amount of the distribution and the taxable portion; and

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

- A copy of the prior plan's summary plan description or other proof that the prior plan was qualified under Section 401(a) of the Internal Revenue Code.

Direct rollover amounts will be treated as before-tax contributions and will be subject to SIP's before-tax rules, including those relating to loans, distributions, and investment transfers. Company match contributions are not made on direct rollover amounts.

Direct rollover checks received by the Benefits Center will be approved after the complete documentation is received and will be deposited into your Rollover Account and invested in accordance with the investment election you make on the Application for Direct Rollover Form.

2. DO YOU WANT TO SAVE BEFORE-TAX DOLLARS, AFTER-TAX DOLLARS, OR BOTH?

You have now decided the total percentage of eligible pay (in 1% increments) you wish to contribute to SIP.

Your next step is to decide how you wish to divide that total percentage between before-tax and after-tax contributions (in 1% increments).

Before-tax and after-tax contributions have different impacts on your taxable income. When you make a before-tax contribution, you are reducing your current taxable income by the amount of your before-tax contribution. On the other hand, an after-tax contribution does not reduce your current taxable income. Thus, when you make a before-tax contribution (as opposed to making the same contribution on an after-tax basis), you will have lower current year taxable income and will actually pay less income tax in the year of the contribution. Remember, even though your before-tax contribution is not currently taxed, it will be taxable when distributed to you or your beneficiary unless it is properly rolled over to an IRA or another employer's qualified plan.

Before you decide between before-tax and after-tax contributions, consider that while before-tax contributions offer certain current tax advantages, there are restrictions on how and when you can access your before-tax contributions. Review the "Taking Money Out of SIP" section before deciding how much you wish to contribute on either a before-tax or after-tax basis.

Neither before-tax contributions nor after-tax contributions impact base pay calculations for other employer-provided benefits or the amount of your wages subject to Social Security (FICA) tax.

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

Plan Accounts

Depending on your elections, the following accounts will be opened in your name:

- ▶ Before-Tax Account—For your before-tax contributions and any direct rollover contributions you made prior to January 1, 1997.
- ▶ After-Tax Account—For your after-tax contributions.
- ▶ Rollover Account—For your direct rollover contributions after January 1, 1997.
- ▶ Company Match Account—For company contributions made on your behalf.

Amounts in all of the accounts listed above will include any amounts transferred from Monsanto SIP as of September 1, 1997.

3. HOW DO YOU WANT TO INVEST YOUR SIP CONTRIBUTIONS?

You have now decided on the total percentage of eligible pay you wish to contribute and how you wish to divide that total percentage between before-tax contributions and after-tax contributions. Your third decision is how you want to invest the funds in your account. Your investment election must be in 1% increments.

You have 14 investment choices.

You can invest in one of the following pre-mixed portfolios:

- ▶ Aggressive Portfolio
- ▶ Moderately Aggressive Portfolio
- ▶ Moderate Portfolio
- ▶ Conservative Portfolio

You can create your own portfolio with the following 10 underlying funds:

- ▶ Large Cap Growth Equity Fund
- ▶ Large Cap Value Equity Fund
- ▶ Mid Cap Growth Equity Fund
- ▶ Mid Cap Value Equity Fund
- ▶ Small Cap Equity Fund
- ▶ U.S. Equity Index Fund

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

- ▶ Balanced Fund
- ▶ International Equity Fund
- ▶ Fixed Income Fund
- ▶ Solutia Stock Fund (election cannot exceed 30% of your before-tax and after-tax contributions)

Your investment election will apply to both your before-tax and after-tax contributions.

In addition to the investment choices listed, you may have contributions that were made prior to September 1, 1997, invested in the Pharmacia or Monsanto Stock Fund. No future contributions may be invested in the Pharmacia or Monsanto Stock Fund, and no past contributions can be transferred into these funds.

About Diversification

Diversification means investing in more than one type of investment at a time to lower your total portfolio risk. The advantage of diversifying is that, if some of your investments drop in value, others could gain or hold their value to offset the decrease.

Investing in different asset classes and different types of funds within the same asset class (for example, large- and small-cap equities) gives you a better chance of avoiding steep ups and downs in the market while still earning the investment returns that you will need to beat inflation. Diversification is a way of minimizing total portfolio risk, even if you are investing in several higher-risk funds.

Company Contributions

The company match on before-tax and after-tax contributions will automatically be invested in Solutia common stock through the Solutia Stock Fund. However, if you are vested in your company match contributions (see pages 19-20 for more information on vesting), you can transfer the assets to other SIP investment options.

Company match contributions that were transferred from the Monsanto SIP were initially invested in the Solutia Stock Fund and what is now the Pharmacia Stock Fund.

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(cont'd)

Plan Expenses

The expenses of administering SIP are charged against participants' SIP accounts. These administrative expenses include fees paid to Hewitt Associates LLC for processing participants' elections, recordkeeping, preparing periodic statements and certain other administrative services under SIP. SIP administrative expenses also include fees paid to The Northern Trust Company for its services as trustee under SIP. Additional expenses for administering SIP also may be paid to others from time to time. SIP administrative expenses generally are charged to SIP participants on a pro-rata basis, based on the amount of their total SIP accounts relative to those of all other participants. In 2002, the amount of administrative expenses charged to SIP participants is estimated to be .20% of their total SIP accounts. In addition to administrative expenses, investment expenses are charged to SIP participants with respect to their investments in the pre-mixed diversified portfolios, as well as the Large Cap Growth Equity, Large Cap Value Equity, Mid Cap Growth Equity, Mid Cap Value Equity, Small Cap Equity, U.S. Equity Index, Balanced, International Equity, and Fixed Income Funds, as described below under "Investment Choices." To find out the current administrative and investment expense fee percentages, call the Benefits Center.

Investment Choices

The following is a brief description of each of the investment choices available under SIP. In addition, you can find fund fact sheets—providing strategy statements, historical performance, performance relative to peers and benchmarks, risk analysis, investment holding analysis, investment managers, and composition for all of the investment funds—on *Your Benefits Resources*. You also can learn about the rates of return by calling the Benefits Center.

Pre-Mixed Diversified Portfolios

If you want to diversify your SIP investments but are unsure of how to do it, consider investing in one of the pre-mixed portfolios. The pre-mixed portfolios combine a wide variety of funds and are designed to be an easy way to diversify your investments.

The pre-mixed portfolios are not designed to be one of several funds that you own. You can use a pre-mixed portfolio as your only fund. All you need to do is select the risk level you are comfortable with, direct your money to that portfolio, and let the professional investment managers worry about making sure your investments are diversified to meet your goals.

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

The pre-mixed portfolios differ in estimated risk and return characteristics. Each pre-mixed portfolio is designed to have a mix of investment funds that provide the highest estimated return for a given level of risk. The portfolios will be rebalanced periodically to maintain targeted levels of investment in the underlying investment funds. The value of each portfolio depends on the values of the underlying investment funds in the portfolio. Since each portfolio contains investments in equity funds and some contain fixed income investments, the value of your investment in a pre-mixed portfolio will rise and fall as the value of the investments in the portfolio changes. There is a potential for gain and loss and no guarantee of repayment of principal in each portfolio. The fees associated with the management of a pre-mixed portfolio will be charged to the accounts of participants who select the portfolio. Specific information and investment allocation of each of the four portfolios follows. This chart shows the proportion of underlying funds in each pre-mixed portfolio:

Fund	Portfolios			
	Aggressive	Moderately Aggressive	Moderate	Conservative
Large Cap Growth Equity	28%	21%	17%	11%
Large Cap Value Equity	28%	21%	17%	11%
Mid Cap Growth Equity	9%	7%	6%	4%
Mid Cap Value Equity	9%	7%	6%	4%
Small Cap Equity	6%	5%	4%	3%
International Equity	20%	15%	—	—
Fixed Income	—	24%	50%	67%
	100%	100%	100%	100%

- **Aggressive Portfolio**—The objective for this portfolio is to maximize total return over the long term by investing 100% in a diversified mix of equities. Historically, this portfolio has had the highest short-term volatility and the highest long-term return of any portfolio offered through SIP and is designed for investors willing to accept risks associated with equity securities and who have long investment horizons. Investment fees charged to participants in this portfolio during 2002 are estimated to be 0.41% of the amount invested in this portfolio.

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- ▶ *Moderately Aggressive Portfolio*—The objective for this portfolio is to provide capital appreciation over the long term. This portfolio is primarily invested in six equity funds, with the remainder invested in the Fixed Income Fund. This portfolio is expected to have a slightly higher expected return than either the Conservative or Moderate Portfolio, and a slightly lower long-term expected return than the Aggressive Portfolio. Investment fees charged to participants in this portfolio during 2002 are estimated to be 0.36% of the amount invested in this portfolio.
- ▶ *Moderate Portfolio*—The objective for this portfolio is to provide a balance of current income and capital appreciation. It is expected that this portfolio will have slightly more risk and a slightly higher expected return than the Conservative Portfolio, given its higher allocation to equities and reduced allocation to fixed income securities. Investment fees charged to participants in this portfolio during 2002 are estimated to be 0.27% of the amount invested in this portfolio.
- ▶ *Conservative Portfolio*—The objective for this portfolio is to provide current income, with some capital appreciation. This is the most conservative of the four pre-mixed portfolios and is often a comfortable choice for those with a lower tolerance for risk, and for those with a shorter time horizon—that is, a short amount of time between now and when they plan to withdraw their SIP balance. This mix has the lowest possibility of sustaining a short-term loss and the lowest expected return. Investment fees charged to participants in this portfolio during 2002 are estimated to be 0.24% of the amount invested in this portfolio.

Underlying Investment Funds

- ▶ *Large Cap Growth Equity Fund*—This fund is designed for long-term growth of capital. Its objective is to provide capital appreciation and above-market sector returns through the stock selection and portfolio management expertise of its professional investment managers. The managers invest primarily in common stocks or securities convertible into common stocks. Each of the two investment managers for this fund invests a portion of the fund. Bramwell Capital Management, Inc. invests in leading companies with above-average forecast growth rates and capital appreciation. Marsico Capital Management LLC focuses on large-cap companies with favorable growth and capital appreciation prospects. The managers were chosen to provide a balance of management styles in the large-capitalization growth equity market sector. The value of your account will rise or fall as the value of the stocks and securities in

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the fund changes. Investment fees charged to participants in this fund during 2002 are estimated to be 0.37% of the assets in this fund. This fund is not publicly traded and is not listed in any business periodicals. The performance benchmark for this fund is the Russell 1000® Growth Index.

- ▶ *Large Cap Value Equity Fund*—This fund is designed for long-term growth of capital. Its objective is to provide capital appreciation and above-market sector returns through the stock selection and portfolio management expertise of its professional investment managers. The managers invest primarily in common stocks or securities convertible into common stocks. Each of the two investment managers for this fund invests a portion of the fund. INVESCO invests in large companies that are undervalued based on earnings and capital appreciation forecasts. John A. Levin & Co., Inc. emphasizes preservation of capital through investing in undervalued companies. The managers were chosen to provide a balance of management styles in the large-capitalization value equity market sector. The value of your account will rise or fall as the value of the stocks and securities in the fund changes. Investment fees charged to participants in this fund during 2002 are estimated to be 0.32% of the assets in this fund. This fund is not publicly traded and is not listed in any business periodicals. The performance benchmark for this fund is the Russell 1000® Value Index.
- ▶ *Mid Cap Growth Equity Fund*—This fund is designed for long-term growth of capital. Its objective is to provide capital appreciation and above-market sector returns through the stock selection and portfolio management expertise of its professional investment manager. The manager invests primarily in common stocks or securities convertible into common stocks. The investment manager is Geneva Capital Management Ltd. Geneva invests in leading mid-cap growth companies with strong earnings growth prospects that offer attractive capital appreciation potential. The value of your account will rise or fall as the value of the stocks and securities in the fund changes. Investment fees charged to participants in this fund during 2002 are estimated to be 0.32% of the assets in this fund. This fund is not a publicly traded fund and is not listed in any business periodicals. The performance benchmark for this fund is the Russell Midcap™ Growth Index.
- ▶ *Mid Cap Value Equity Fund*—This fund is designed for long-term growth of capital. Its objective is to provide capital appreciation and above-market sector returns through the stock selection and portfolio management expertise of its professional investment manager. The manager invests primarily in common stocks or securities convertible into common stocks. The investment manager

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Section I: Putting Money Into SIP (cont'd)

is Keeley Asset Management Corp. Keeley invests in mid-cap companies that are undervalued based on earnings and capital appreciation forecasts. The value of your account will rise or fall as the value of the stocks and securities in the fund changes. Investment fees charged to participants in this fund during 2002 are estimated to be 0.31% of the assets in this fund. This fund is not a publicly traded fund and is not listed in any business periodicals. The performance benchmark for this fund is the Russell Midcap™ Value Index.

- *Small Cap Equity Fund*—This fund is designed for long-term growth of capital. Its objective is to provide capital appreciation and above-market sector returns through the stock selection and portfolio management expertise of its professional investment manager. The manager invests primarily in common stocks or securities convertible into common stocks. The investment manager is Hoover Investment Management Co. Hoover invests in small-cap companies that are undervalued based on earnings and capital appreciation forecasts. The value of your account will rise or fall as the value of the stocks and securities in the fund changes. Investment fees charged to participants in this fund during 2002 are estimated to be 0.61% of the assets in this fund. This fund is not a publicly traded fund and is not listed in any business periodicals. The performance benchmark for this fund is the Russell 2000® Smallcap Index.
- *U.S. Equity Index Fund*—This fund is designed to provide a cost-effective equity investment vehicle, with exposure to the most highly capitalized part of the U.S. equity market. Its objective is to track the performance of the Standard & Poor's 500 Composite Stock Index. All contributions to the U.S. Equity Index Fund will be invested in the Mellon Bank, N.A. EB Daily Liquidity Stock Index Fund. It is a collective investment fund for qualified employee benefit trusts. Mellon Bank, N.A. has retained its affiliate, Mellon Capital Management Corporation, to provide investment advisory services to the fund. The fund holds all of the stocks in the S&P 500 Index in proportion to their market capitalization-weighted values and offers participation in approximately 70% to 75% of the total U.S. equity market. The fund also uses S&P 500 Stock Index futures to facilitate the management of fund cash flows. The value of the U.S. Equity Index Fund will rise and fall as the value of the investments in the fund changes. There is a potential for gain and loss and no guarantee of repayment of principal. Investment fees charged to participants in this fund during 2002 are estimated to be 0.05% of the assets in this fund. Since this fund is not a publicly traded stock fund, it is not listed in business periodicals. Performance is expected to track the S&P 500 Index closely.

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Section I: Putting Money Into SIP (cont'd)

- ▶ *Balanced Fund*—This fund invests in both fixed income and equity securities. A professional investment management firm directs the investment allocation of the fund balance between fixed income and equity securities. The objective of the fund is to achieve a higher overall rate of return than is available from the Fixed Income Fund but have less risk than the equity funds. Currently, all contributions to the Balanced Fund are invested in the Dodge & Cox Balanced Fund, which is managed by the investment advisory firm of Dodge & Cox. The value of the fund shares depends on the value of the fund's fixed income and equity securities. As such, the value of the Balanced Fund account will rise and fall as the value of stocks and bonds in the fund changes. There is a potential for gain and loss and no guarantee of repayment of principal. Dodge & Cox's current policy is that no more than 75% of the Dodge & Cox Balanced Fund will be invested in common stocks. Individual securities are selected with an emphasis on financial strength and long-term profit potential. The fund's objectives are capital appreciation in favorable periods and conservation of principal in adverse times, but given the risks inherent in the financial markets, no assurance can be given that the fund will achieve its objectives. Investment fees charged to participants in this fund during 2002 are estimated to be 0.36% of the assets in this fund. This fund is not a publicly traded fund and is not listed in business periodicals.
- ▶ *International Equity Fund*—This fund is designed to seek long-term growth of amounts invested in a diversified portfolio of stock of established companies in developed countries outside the United States, along with managed exposure to investments in emerging markets which offer higher return potential. Funds are invested in the Capital Guardian International Fund. Investment fees charged to participants in this fund during 2002 are estimated to be 0.62% of the assets in this fund. This is not a publicly traded fund and is not listed in business periodicals.
- ▶ *Fixed Income Fund*—This fund is designed to protect capital and generate current income. Permissible investments for this fund include investment contracts issued by insurance companies and/or banks under which the issuer is responsible, subject to specified conditions, for repayment of principal and interest. Currently, this fund is invested in cash investments and in investment contracts backed by the following banks: JPMorgan Chase Bank and UBS AG. While these investment contracts are not guaranteed against failure of the banks, the company's current selection criteria require each of the insurance companies and banks to have a Moody's rating of A or better. The earnings rate credited to your account is based on the composite earnings rate of the

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

various contracts. This fund may also invest in fixed income securities such as, but not limited to, mortgage-backed government and high-grade corporate securities. Currently, fees and expenses include fees paid to investment managers who are responsible for the assets in the fund. The fees are a percentage of the assets under management that are paid to the following investment managers: Standish Mellon Asset Management; NISA Investment Advisors LLC, Northern Trust, and Morgan Stanley. Investment fees charged to participants in this fund during 2002 are estimated to be 0.18% of the assets in this fund. Since the Fixed Income Fund is not a publicly traded fund, it is not listed in business periodicals.

- *Solutia Stock Fund/Employee Stock Account*—This fund invests primarily in Solutia common stock and may hold relatively small amounts of cash. You are not permitted to elect to have more than 30% of your before-tax and after-tax contributions invested in this fund. Your contributions to this fund and the company match will be held in separate accounts. Your contributions invested in this fund will be kept in a Solutia **Employee** Stock Account. Company match contributions invested in this fund will be kept in a Solutia **Company Match** Account. The value of the Solutia stock in this fund may rise or fall, so there is a potential for gain and a potential for loss. There is no guarantee of repayment of principal. Shares for your account will come from within SIP if adequate shares are available from participant withdrawals and, if adequate shares are not available, from purchases on the open market. For purposes of determining gains or losses, it is assumed that shares are acquired at the fair market value on the date of purchase (shares available from participant withdrawals are assumed to be purchased on the effective date of the withdrawal). Company match contributions will be used to purchase shares on the open market (see page 53). Dividends paid on Solutia stock in the Solutia Employee Stock Account and Solutia Company Match Account will be used to purchase additional shares of Solutia stock to be placed in your Solutia Company Match Account or will be paid in cash if you so elect. No investment expenses are charged at this time; however, amounts invested in the Solutia Stock Fund are charged for administrative expenses as described in "Plan Expenses" on page 10. Solutia Inc. common stock is publicly traded, and its New York Stock Exchange (NYSE) symbol is "SOI."
- *Solutia Stock Fund/Company Match Account*—Like the Solutia Stock Fund/**Employee** Stock Account, this fund invests in Solutia common stock and may hold small amounts of cash. All matching contributions Solutia makes on your behalf are invested in this fund.

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Section I: Putting Money Into SIP (cont'd)

- ▶ **Pharmacia Stock Fund**—This fund is invested primarily in Pharmacia Corporation common stock and may hold relatively small amounts of cash. The amounts in this fund reflect amounts contributed to the Monsanto SIP prior to August 31, 1997, that were invested in what was then Monsanto common stock and which were not converted to Solutia common stock in connection with the spin-off of Monsanto's chemical businesses. The subsequent merger between Monsanto Company and Pharmacia-Upjohn, with the surviving company renamed Pharmacia Corporation, has resulted in each Monsanto Company share being converted to a Pharmacia Corporation share. Amounts attributable to your contributions are kept in a Pharmacia Employee Stock Account. Amounts attributable to employer matching contributions are kept in a Pharmacia Company Match Account. The value of the Pharmacia stock in this fund may rise or fall, so there is a potential for gain and a potential for loss. There is no guarantee of repayment of principal. Cash dividends paid on Pharmacia stock in the Pharmacia Employee Stock Account will be invested in the Solutia **Employee** Stock Account, and cash dividends paid on Pharmacia stock in the Pharmacia Company Match Account will be invested in the Solutia **Company** Match Account. No future contributions may be invested in this fund, and no past contributions can be transferred to this fund. No investment expenses are charged at this time; however, amounts invested in the Pharmacia Stock Fund are charged for administrative expenses as described in "Plan Expenses" on page 10. Pharmacia Corporation common stock is publicly traded, and its New York Stock Exchange (NYSE) symbol is "PHA."
- ▶ **Monsanto Stock Fund**—This fund was created as a result of the spin-off of the new Monsanto Company from Pharmacia Corporation and contains amounts attributable to your contributions and employer matching contributions. The fund is invested primarily in Monsanto common stock and may hold relatively small amounts of cash. Amounts attributable to your contributions are kept in a Monsanto Employee Stock Account. Amounts attributable to employer matching contributions are kept in a Monsanto Company Match Account. The value of the Monsanto stock in this fund may rise or fall, so there is a potential for gain and a potential for loss. There is no guarantee of repayment of principal. Cash dividends paid on Monsanto stock in the Monsanto Employee Stock Account will be invested in the Solutia **Employee** Stock Account, and cash dividends paid on Monsanto stock in the Monsanto Company Match Account will be invested in the Solutia **Company** Match Account. No future contributions may be invested in this fund, and no past contributions can be transferred to this fund. No investment expenses are charged at this time; however, amounts invested in the Monsanto Stock Fund are charged for

How the Plan Works

Section I: Putting Money Into SIP (cont'd)

administrative expenses as described in "Plan Expenses" on page 10. Monsanto Company common stock is publicly traded, and its New York Stock Exchange (NYSE) symbol is "MON."

Investment Funds Performance

The following chart shows the average annual return of the SIP investment funds. Remember, however, past performance may not accurately predict future performance of an investment option. (Returns shown are net of investment expenses but not administrative expenses.)

AVERAGE ANNUAL TOTAL RETURN For periods ending December 31, 2001

Fund or Portfolio	1 year	2 year	3 year	5 year	10 year	Low	High
Aggressive Portfolio	-12.5	-12.4	0.0	8.5	11.5	-12.5	30.3
Moderately Aggressive Portfolio	-7.8	-7.7	1.6	8.5	10.4	-7.8	23.1
Moderate Portfolio	1.3	1.9	5.1	9.3	10.6	1.3	21.8
Conservative Portfolio	3.4	4.2	6.1	8.7	9.7	3.4	17.0
Large Cap Growth Equity Fund	-13.4	-10.1	4.4	17.4	15.9	-13.4	44.0
Large Cap Value Equity Fund	4.8	6.3	9.0	15.4	N/A	4.8	28.9
Mid Cap Growth Equity Fund	-3.4	4.5	7.5	14.8	14.6	-3.4	43.6
Mid Cap Value Equity Fund	5.1	8.5	6.9	14.3	16.5	-1.3	42.2
Small Cap Equity Fund	4.9	13.7	11.4	N/A	N/A	4.9	23.2
U.S. Equity Index Fund	-11.8	-10.4	-1.0	10.7	13.0	-11.8	37.5
Balanced Fund	11.5	13.5	13.0	13.4	13.6	2.0	27.8
International Equity Fund	-16.6	-17.8	4.4	5.8	8.4	-19.0	68.3
Fixed Income Fund	6.6	6.5	6.5	6.6	7.4	6.4	9.9
Solutia Stock Fund/ Employee Stock Account	15.5	-5.5	-15.0	N/A	N/A	-31.2	15.5
Solutia Stock Fund/ Company Match Account	16.3	-5.1	-14.7	N/A	N/A	-31.0	16.3
Pharmacia Stock Fund	-29.3	10.6	-2.9	2.6	14.3	-25.1	78.9
Monsanto Stock Fund	26.4	56.24**	N/A	N/A	N/A	26.6	26.6

**Low refers to the lowest calendar year return for the years 1992 through 2001.

***High refers to the highest calendar year return for the years 1992 through 2001.

***For period October 17, 2000 through December 31, 2001.

Section I:
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Periodic Statements

Currently, personalized statements are distributed annually to reflect the amount in your accounts by investment choice as of the beginning and end of the year and any activity during the period. You also can check your account balance at any time by logging on to *Your Benefits Resources* or by calling the Benefits Center.

Vesting Rights

"Vesting" is used to determine the percentage of your Company Match Account you will receive if you terminate employment. You are always 100% vested in the current value of your contributions (before tax and after tax) and earnings on those contributions.

You become 100% vested in Solutia matching contributions once you have three years of service. If you leave Solutia before you have three years of service, you will forfeit your matching contributions. Forfeitures are applied to reduce future matching contributions by your employer or to pay plan expenses.

If you are reemployed by the company or a subsidiary before you incur five consecutive one-year Breaks in Service, the forfeited company match will be restored to your Solutia Company Match Account. If you complete three years of Vesting Service (including your years of Vesting Service before such Break in Service), you will become 100% vested in your Company Match Account, including the restored forfeited amount.

No matter how many years of Vesting Service you have, you automatically are 100% vested if, while an active employee, you reach age 65, die, or become disabled. Disabled means you are unable to perform, with or without reasonable accommodation, any reasonable occupation for which you are qualified or may become qualified by virtue of education, training, or experience.

Following are key definitions used to determine whether you are vested:

- ***Hour of service:*** In general, an hour of service means each hour for which you are paid (either directly or indirectly) or are entitled to payment from the company or a subsidiary, including payment for time not actually worked. This would include holidays, vacation, and temporary disability.

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Section I:
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- ▶ *Year of Vesting Service:* You began to receive Vesting Service on your first day at work. You are credited with one month of Vesting Service for each month during which you have an hour of service. You will be credited with one year of Vesting Service for each 12 months of Vesting Service you earn. You may be eligible to be credited with additional years of Vesting Service based on work done for Solutia while self-employed or while working for a third party. Contact the Solutia Center for Employee Services (CES) if this may be applicable.
- ▶ *Break in Service:* You will incur a one-year Break in Service if you do not complete an hour of service in any 12-month period.

How the Plan Works

Section II: Making Changes in SIP

In the first section, we reviewed the three questions you need to answer as you put money into SIP: how much of your eligible pay to save; how to split your contributions between before-tax and after-tax; and how to invest your contributions.

The chart shown below sketches how you can change any of those decisions while you are an active employee.

MAKING CHANGES IN SIP

Visit Your Benefits Resources or call the Benefits Center automated telephone system at 1-888-726-3516 and your election will be effective.	
If you want to:	
Enroll in SIP or change the percentage of eligible pay you are contributing	Approximately two pay periods after your election
Change how future contributions are invested	The next business day
Transfer the value of existing balances among investment choices	The same day, provided you call by 3:00 p.m. Central time on a business day; otherwise, the next business day

TRANSFER OR REALLOCATION OF EXISTING BALANCES

You may elect to transfer or reallocate all or a portion of your existing balances among the various investment funds (excluding the Pharmacia and Monsanto Stock Funds) or a pre-mixed portfolio. The transfer of existing balances can be done by either:

- ▶ Electing to transfer a specific dollar amount or percentage of the amount in an investment fund or a pre-mixed portfolio to another investment fund (excluding the Pharmacia and Monsanto Stock Funds) or a pre-mixed portfolio; or
- ▶ Reallocating your existing balances by electing percentages (in 1% increments) to be invested in any of the investment funds (excluding the Pharmacia and Monsanto Stock Funds) or a pre-mixed portfolio.

There are three limitations on transferring existing balances: (1) you may transfer amounts into the Solutia Stock Fund to the extent such transfer would not result in more than 30% of your balances being invested in your **Employee** Stock Account in the Solutia Stock Fund; (2) you may transfer amounts out of the Pharmacia or Monsanto Stock Fund, but you cannot transfer amounts into the Pharmacia or Monsanto Stock Fund; and (3) you may not transfer amounts in your Company Match Account out of the Solutia Stock Fund if you are not 100% vested.

How the Plan Works

Section II: Making Changes in SIP (cont'd)

An important note: All amounts in a Company Match Account that are transferred to the other investment funds or a pre-mixed portfolio will continue to be accounted for separately and will be subject to the loan and withdrawal restrictions on your Company Match Account.

Transfer elections may be made at any time on *Your Benefits Resources* or by calling the Benefits Center. The election will be effective that day if you make the election before 3:00 p.m. Central time on any business day. Otherwise, it is effective the next day. The value to be transferred will be based on the closing net asset value as of the business day in which the transfer is made.

Minimum Price Election vs. Market Price Election

When you elect to transfer amounts in your Solutia Company Match Account, you will have two options—a Minimum Price Election or a Market Price Election. If you elect to make a Minimum Price Election, you will be asked to specify a minimum value that the stock must equal or exceed at the end of the business day in which the request is made before the transfer will take place. This feature protects the value of your account against a sudden drop in the stock market. For example, if you choose \$15 per share as the lowest acceptable market price for your transfer and the stock was valued at \$10 at the end of the day, no transfer would be made, and your request will be canceled.

On the other hand, if you make a Market Price Election by 3:00 p.m. Central time on any business day, the transfer will take place that day, regardless of the closing stock price on that day. If you elect to transfer amounts in your Pharmacia or Monsanto Stock Fund Company Match Account, such transfer will automatically be a Market Price Election.

How to Make Your Election

You can request a fund transfer or fund reallocation at any time on *Your Benefits Resources*, or by calling the Benefits Center. The election will be effective that day if you make the election before 3:00 p.m. Central time on any business day. Otherwise, it is effective the next day.

Please call the Benefits Center and speak to a Benefits Center representative if you want to make a Minimum Stock Price Election.

Things to keep in mind:

- ▶ The company match on future contributions will continue to be invested in the Solutia Stock Fund. You can then make a transfer election for those amounts.
- ▶ The beneficial tax treatment for "Unrealized Appreciation" applies only to stock, and consequently will not apply to company match balances transferred to other funds and/or subsequently distributed in cash. See page 50 for a more complete explanation of "Unrealized Appreciation."

How the Plan Works

Section III: Taking Money Out of SIP

There are five ways you can get your money out of SIP: withdrawals, loans, final distributions after termination or retirement, partial distributions after termination or retirement, and installment payments after termination or retirement. (If you retire or terminate employment, you may be able to defer receiving a final distribution.) Your employment status—whether you are an active employee or a terminated or retired employee—and age will determine which options are available to you.

You may recall that there are two options for putting money into SIP: before-tax and after-tax contributions. **Note that the withdrawal provisions described below apply only to your after-tax money and the company match if you are under age 59½.** In other situations, your before-tax money may also be available.

The chart on page 24 summarizes your options for taking money out of SIP. Following the chart is a more detailed description of each of those options.

A few notes about the options for taking money out of SIP:

- ▶ They are not necessarily exclusive of each other. For example, as an active employee, you may be able to take a withdrawal as well as a loan. As a terminated employee, you may elect to defer your SIP distribution, and then elect either a final distribution or installment payments.
- ▶ All payments are based on the value of each SIP account as of the day your request is processed.
- ▶ Tax information is included beginning on page 43 to provide an overview of the impact of your choices.

How the Plan Works

TAKING MONEY OUT OF SIP—YOUR OPTIONS

Your Status	Options	Highlights
Active Employee	Withdrawal (In-Service and Age 59½)	At any age, can withdraw your after-tax contributions and earnings. If you have at least five years of SIP participation, can withdraw all company match on before-tax and after-tax contributions. At and after age 59½, can also withdraw your before-tax contributions and earnings. Minimum withdrawal is \$200.
	Loan	Loan amounts are taken first from your before-tax funds and then from your after-tax funds. Minimum loan amount is \$500. Maximum loan is the lesser of: (1) 50% of vested account balances (including company match), or (2) \$50,000 minus highest outstanding loan balance in last 12 months. Maximum of two outstanding loans at a time. From 12- to 60-month payback period. Repayments are invested according to your current investment elections.
Employee Who Leaves Employment	Final Distribution	You receive the entire balance of your accounts. Any remaining unpaid loan balance is canceled, taxed, and subtracted from amount you receive, if you do not repay your loan.
	Deferral	If you are under age 70½, deferral is automatic at time of termination. Can end deferral anytime up to April 1 of the calendar year following the calendar year in which you reach age 70½. You can leave stock in your Company Match Account as stock or have all or part (in 1% increments) of it converted to cash and transferred to any of the other investment funds (excluding the Pharmacia or Monsanto Stock Fund) or a pre-mixed portfolio. You can make separate elections for your Solutia, Pharmacia, and Monsanto Company Match Accounts. Choice of repaying loan within two months after terminating employment. Two partial distributions (minimum \$200) per calendar year will be allowed. When you end deferral, you can elect final distribution or installment payments (if account balance over \$5,000).
	Installment Payments	Need account balance above \$5,000. You select either a payment period (one year to a maximum depending on your age) or specific dollar amount per payment. You select payment interval (monthly, quarterly, annually). Accounts remain invested in accordance with your current investment election. Can make investment transfers at any time. Twice per calendar year, can take a partial distribution (minimum \$200). Can change payment period or interval at any time.
Death	Deferral	A SIP beneficiary who is a surviving spouse may defer distribution up to December 31 of the calendar year in which the participant would have reached age 70½ (or December 31 of the calendar year after the year in which the participant died, if later). Such surviving spouse may take up to two partial distributions (minimum \$200) per calendar year while in deferral status. At the end of the deferral period, the surviving spouse will begin to receive minimum distribution payments, unless a separate distribution election is made. A SIP beneficiary who is not a surviving spouse may elect to defer distribution for up to five years from the date the participant died.
	Final Distribution	A SIP beneficiary may elect to receive a final distribution either immediately or at any time up to the end of the deferral period.
	Installment Payments	A SIP beneficiary who is a surviving spouse may elect to receive installment payments provided account balance is above \$5,000. Surviving spouse selects either payment period (not to exceed participant's life expectancy) or fixed dollar amount. Surviving spouse also elects payment interval (monthly, quarterly, annually). Can change payment period or interval at any time. Can take two partial distributions (minimum \$200) per calendar year.

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Section III: Taking Money Out of SIP (cont'd)

WITHDRAWALS (IN-SERVICE AND AGE 59½)

In-Service Withdrawals

If you are under age 59½, you can withdraw money only from your After-Tax Account and the Company Match Account—not from your Before-Tax Account or your Rollover Account.

You can withdraw any amount from your After-Tax Account and your Company Match Account, with one exception. If you have participated in SIP for less than five years, you cannot withdraw matching contributions credited to your Company Match Account in the last 24 months and any portion of your Company Match Account in which you are not vested. You can specify the exact amount you want to withdraw (\$200 minimum), or you can withdraw 100% of the amount available.

If you elect an in-service withdrawal, the money will be withdrawn first from your After-Tax Account pro rata across all your investment choices, and second from your Company Match Account pro rata.

When it comes time to report to you and the IRS which withdrawn amounts are taxable and nontaxable, there are different rules to determine the order in which money is withdrawn. See the "Tax Information" section on pages 43–52.

Age 59½ Withdrawal

After you reach age 59½ as an active employee, you can withdraw any amount from your Before-Tax Account, After-Tax Account, Rollover Account, and your Company Match Account, with one exception—you cannot withdraw any portion of your Company Match Account in which you are not vested. You can specify the exact amount you want to withdraw (\$200 minimum), or you can withdraw 100% of the amount available.

If you elect an age 59½ withdrawal, the money will be withdrawn first from your Before-Tax and After-Tax Accounts pro rata across all your investment choices, and second from your Company Match Account pro rata.

How and When to Apply for an In-Service or Age 59½ Withdrawal

You can request a withdrawal on *Your Benefits Resources* or by calling a Benefits Center representative. The amount available for withdrawal is determined at the close of each business day (3:00 p.m. Central time, or when the stock market closes). If the amount of your request exceeds the amount available for withdrawal when your request is processed, you will receive only the amount available.

If you withdraw amounts invested in Solutia, Pharmacia, or Monsanto stock, you can elect to receive such amounts in cash or in shares of Solutia, Pharmacia, or Monsanto stock.

How the Plan Works

Section III: Taking Money Out of SIP (cont'd)

When you elect a withdrawal, you will need to indicate whether you want the withdrawal amount paid directly to you or rolled over into an IRA.

If you request an in-service withdrawal or an age 59½ withdrawal, you will receive payment as soon as administratively possible. If you are receiving stock, your stock certificate(s) will be sent separately from your check.

If you have transferred part of your Solutia Company Match Account into the other investment funds and/or a pre-mixed portfolio and you want to receive such amounts as Solutia stock, you will need to transfer your money back to the Solutia Stock Fund (see pages 21-22) at the time you make your withdrawal request.

Tax Information

You will pay ordinary income tax and possibly an additional 10% penalty tax on the taxable portion of your withdrawal. See the "Tax Information" section on pages 43-52.

LOANS

Loan amounts are taken first from your before-tax funds, then your rollover contributions, and finally from your after-tax funds, in \$1 increments. You can take from 12 to 60 months to pay yourself back. You cannot take a loan if your vested account balance is less than \$1,000 or if you are in deferral or installment status.

You cannot borrow from the Company Match Account.

How Much

If your total vested SIP balance is over \$1,000, the least amount you can borrow is \$500, and the most you can borrow is the lesser of:

- ▶ \$50,000 minus the highest outstanding loan balance you had in the last 12 months; or
- ▶ 50% of your total vested SIP balance.

How the Plan Works

Section III: Taking Money Out of SIP (cont'd)

Note that you cannot borrow from the Company Match Account (including amounts that are invested in the other investment funds and/or a pre-mixed portfolio), but the value of your Company Match Account is counted when determining your total vested SIP balance.

How Often

Loans can be requested at any time. However, you can have only two outstanding loans at a time. The total amount of the two loans cannot exceed your loan maximum.

Interest Rates

Interest rates are set quarterly for new loans. Currently, the rate is based on the prime interest rate.

When you take out a loan, the interest rate will be determined as of the effective date of the loan and will not change for the life of your loan.

How Long

You can establish a loan repayment schedule from 12 to 60 months. You can pay off the remaining balance of your loan with no prepayment penalty. Partial prepayments are not allowed. Repayments are invested according to your current investment elections.

How and When to Apply

You can request a loan on *Your Benefits Resources* or by calling the Benefits Center.

You will receive a Truth-in-Lending Disclosures/Promissory Note. It will show all the specifics—loan amount, duration of the loan, the annual rate of interest, the total amount of interest you will pay, and the actual payroll deduction from each paycheck. You do not need to return the note—keep it for your records. A check will be mailed to you as soon as administratively possible.

By negotiating or taking the proceeds of the loan check, you are agreeing to be bound by the terms of the Truth-in-Lending Disclosures/Promissory Note.

Sources of Loan Funds

If you have Before-Tax, Rollover, and After-Tax Accounts, your loan will be secured first by your Before-Tax Account, then by your Rollover Account, and finally by your After-Tax Account. The money for your loan will be taken from your investment funds and/or premixed portfolios on a pro-rata basis.

How the Plan Works

Section III: Taking Money Out of SIP (cont'd)

Repaying a Loan

Payroll Repayments

Loan repayments are deducted automatically from your paychecks after federal and state taxes are calculated.

Repayments While You Are on Unpaid Leave

If you are on an unpaid leave of absence, your loan repayments are suspended for up to a maximum of 12 months during your leave. However, the original term of the loan will not be extended and, after you return to work, you will need to pay the full amount of the repayments you have missed.

Repaying Your Loan Early

You can repay your loan in full at any time with no prepayment penalties. To do so, request an early loan payoff on *Your Benefits Resources*. Or, call the Benefits Center and speak to a representative.

Loan principal: You will be paying back your After-Tax Account first, then your Rollover Account, and finally, your Before-Tax Account. Thus, you are first paying back the After-Tax Account, which is more readily available for withdrawal than your Before-Tax Account.

Loan interest: Interest payments on the outstanding loan balance will be allocated between your After-Tax, Rollover, and Before-Tax Accounts in proportion to the outstanding loan balance due to each.

Both principal and interest payments will be split among the investment funds and/or a pre-mixed portfolio, depending on your current investment election.

If you are not able to repay your loan within the required 60-month maximum repayment period as a result of layoff, unpaid leave of absence, or any other reason, a taxable distribution to you in the amount of the unpaid loan balance will be declared at the earlier of a final distribution or the end of the maximum 60-month repayment period. With respect to any amounts secured by your Before-Tax Account, you will still be obligated to repay the loan, and interest will continue to accrue on the outstanding balance until you are able to take a before-tax distribution. If you return to employment before receiving a taxable distribution, you will have three choices on how to repay the remaining balance on your loan: (1) obtain a cashier's check, certified check, or money order to make up for missed payments; (2) obtain a cashier's check, certified check, or money order to pay off your loan completely; or (3) increase the repayment amount deducted from your paychecks so that your loan is paid off by the original maturity date.

How the Plan Works

Section III: Taking Money Out of SIP (cont'd)

What Happens to Your Loan If You Have an Outstanding Loan Balance and Elect Other SIP Payments

If you have an outstanding loan balance and:

- ▶ You elect an in-service withdrawal, you must continue to repay the outstanding loan balance.
- ▶ You receive a final distribution (no matter what your age), your loan is canceled—you do not need to pay it off. Because you already received the money, the outstanding loan balance is included in the amount reported to the IRS as distributed to you, but it is not actually included in the amount distributed to you at this time.
- ▶ You elect the deferral option, you have a choice of paying off your loan or not.
- ▶ You elect installment payments, you have a choice of paying off your loan or not.

If you have a choice of paying off your loan or not and you do not pay off your loan within two months after your termination of employment, your loan balance will be considered a distribution to you and reported to the IRS as a distribution for income tax purposes. This can impact whether a distribution in a later year would qualify for lump-sum tax treatment. If you want to roll over your taxable loan amount, you must repay the loan before you receive the distribution or you must find other money equal to the loan amount to roll over. See the "Tax Information" section on pages 43-52.

Loan Interest Payments

The interest you pay on your loan is considered earnings on your SIP accounts. Therefore, it will be taxable just like other SIP earnings when paid out of the plan (even though you have paid interest with after-tax dollars).

FINAL DISTRIBUTION AFTER TERMINATION OF EMPLOYMENT OR RETIREMENT

When you retire or terminate employment, or anytime during your deferral period, you can elect to receive a final distribution.